

Message Text

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ACTION ARA-10

INFO OCT-01 ISO-00 FEA-01 AGR-05 CEA-01 CIAE-00 COME-00

DODE-00 EB-07 FRB-03 H-02 INR-07 INT-05 L-03 LAB-04

NSAE-00 NSC-05 PA-01 AID-05 CIEP-01 SS-15 STR-04

TAR-01 TRSE-00 PRS-01 SP-02 OMB-01 SSO-00 USIE-00

INRE-00 NSCE-00 /085 W
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O R 122015Z SEP 75

FM AMEMBASSY BRASILIA

TO SECSTATE WASHDC IMMEDIATE 1482

INFO AMCONSUL RIO DE JANEIRO

AMCONSUL SAO PAULO

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E. O. 11652: N/A

TAGS: EFIN, BR

SUBJECT: BRAZIL'S EXTERNAL POSITION: ACTION PROGRAM?

1. TODAY'S PRESS (SEPTEMBER 12) CARRIES REPORT, ATTRIBUTED TO CACEX OFFICIAL, THAT PRELIMINARY TRADE FIGURES THROUGH AUGUST SHOW AN ESTIMATED CUMULATIVE TRADE DEFICIT SO FAR THIS YEAR OF \$2.3 BILLION, EXPORTS REACHING \$5.7 BILLION AND IMPORTS \$8.0 BILLION. ALTHOUGH SOME IMPROVEMENT IN EXPORT EARNINGS IS EXPECTED DURING THE REMAINING MONTHS OF THE YEAR -- PARTICULARLY AS A RESULT OF A RISE IN COFFEE PRICES -- PRESS STORIES INDICATE THAT GOVERNMENT OFFICIALS SEE TRADE PICTURE FOR 1975, AT THIS POINT IN TIME, AS PRETTY MUCH AN UN-ALTERNABLE SITUATION. THESE OFFICIALS ARE NOW PROJECTING THE TRADE DEFICIT BETWEEN \$3.2 BILLION AND \$3.5 BILLION, INSTEAD OF THE ORIGINAL OFFICIAL TARGET OF \$2.5 BILLION. GOVERNMENT OFFICIALS ARE ALSO QUOTED AS BELIEVING THAT THE PRIOR IMPORT DEPOSIT AND OTHER RESTRICTIVE MEASURES

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ARE EXPECTED TO HAVE THEIR FULL IMPACT ONLY DURING

1976.

2. ACCORDING TO THESE PRESS ACCOUNTS, OFFICIALS HAVE CHARACTERIZED 1976 AS THE "YEAR OF RECUPERATION" FOR THE BALANCE OF PAYMENTS. THE GOVERNMENT REPORTEDLY PLANS TO HAVE A FULL PACKAGE OF MEASURES IN EFFECT BY NEXT JANUARY 1 TO CONTAIN IMPORTS AND STIMULATE EXPORTS. WITH RESPECT TO IMPORTS BY THE PUBLIC SECTOR, PAPERS NOTE THAT BY OCTOBER 1, PUBLIC ENTITIES HAVE TO PRESENT TO THE COMMISSION OF PUBLIC PURCHASES POLICY (CPCO) A COMPLETE REPORT ON THE PUBLIC SECTOR'S IMPORTS IN 1975 AND PROJECTIONS FOR 1976. BASED ON THESE PROJECTIONS, THE CPCO IS EXPECTED TO MAKE RECOMMENDATIONS TO HIGHER LEVELS OF GOVERNMENT ON 1976 PUBLIC SECTOR'S IMPORT PROGRAM. WITH RESPECT TO THE PRIVATE SECTOR, THE GOVERNMENT PLANS TO CONTINUE WITH THE PRIOR IMPORT DEPOSIT, WHILE THE CPA (CUSTOMS POLICY COUNCIL) WILL CONTINUE TO EXAMINE REQUESTS FOR TARIFF REDUCTIONS AND EXEMPTIONS ON A CASE-BY-CASE BASIS. IN ADDITION, CACEX WILL REPORTEDLY MAINTAIN ITS UNOFFICIAL POLICY OF DELIBERATELY DELAYING THE ISSUANCE OF IMPORT LICENSES. IN BRIEF, GOVERNMENT OFFICIALS ARE PREDICTING THAT IN 1976 IMPORTS WILL RECEIVE "ONE OF THE MOST RIGID CONTROLS EVER EXPERIENCED IN THE COUNTRY." AND THAT THE OBJECTIVE OF THIS "STRATEGIC SCHEME FOR FOREIGN TRADE IN 1976" IS TO PROMOTE A REDIRECTION OF BRAZILIAN IMPORTS.

COMMENT

3. WHAT THESE PRESS REPORTS SEEM TO INDICATE IS THAT GOVERNMENT OFFICIALS HAVE NOW CONCLUDED THAT THE BALANCE OF PAYMENTS OUTCOME OF 1975 WILL BE WORSE THAN THEY HAD EARLIER ANTICIPATED, THAT THE MEASURES CURRENTLY IN PLACE TO CONTAIN IMPORTS ARE INADEQUATE AND THAT MORE SEVERE MEASURES ARE REQUIRED. AS WE HAVE PREVIOUSLY REPORTED, THE PRIOR DEPOSIT SCHEME, BUREAUCRATIC DELAYS IN ISSUING IMPORT LICENSES, AND THE CONTROLS ON IMPORTS BY THE PUBLIC SECTORS (WHICH WERE APPARENTLY NEVER REALLY ENFORCED) WERE ALL MERE PALLIATIVES, PERMITTING THE GOB TO BUY SOME ADDITIONAL LIMITED OFFICIAL USE

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TIME. THE DAY OF RECKONING HOWEVER, WHEN THE DIFFICULT DECISION CAN NO LONGER BE DELAYED, APPEARS TO BE APPROACHING RAPIDLY. THE GOB, THEREFORE, MAY VERY SOON HAVE TO "BITE THE BULLET" AND IMPLEMENT A TRUE AUSTERITY PROGRAM IN ORDER TO PREVENT THE EXTERNAL POSITION FROM GETTING OUT OF HAND.

4. WITHIN THE NEXT WEEK OR SO, WE WILL BE CONTACTING

GOB OFFICIALS TO DEVELOP ADDITIONAL INFORMATION ON CURRENT
TRENDS AND PROSPECTIVE MEASURES. INFORMATION
DEVELOPED FROM THESE CONTACTS WILL BE SUBJECT OF SUBSEQUENT
MESSAGE.
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